



Assogestioni reply to JRC Technical Consultation on the development of the EU Ecolabel criteria for retail financial products

INTRODUCTION / SUMMARY

Assogestioni, the Italian asset management association, welcomes the European Commission's initiative to develop an EU Ecolabel for retail financial products. We see this as an opportunity to create a coherent European approach and promote sustainable investments among the retail investors. We believe that the creation of a European ecolabel based on common principle would be extremely beneficial in creating a European wide market for a "quality" green product also in the financial sector and raise awareness among retail investors on the impact of investment choices on sustainability.

We agree with the broad scope of the regulation in terms of range of products that would qualify for the label. In terms of the overall approach to the Ecolabel and the type of investment criteria it should reflect, we believe the focus should remain on environmental issues as per the tradition of Ecolabels.

While we are in favour of the establishment of some threshold to qualify for the label, we caution against the establishment of too strict criteria. If the objective is to identify the top 10-20% most eco-friendly retail investment products, a balance should be reached between setting meaningful standards to create a label that could guide investors toward greener products – should they choose so – but also allowing a sufficiently broad choice of eligible assets for the asset managers to create products with a range of risk/rewards profiles.

Please see our detailed responses to the questions for more details.

Criteria proposal and criteria structure

Q 1.1 Do you agree with the proposal of a set of mandatory criteria for the EU Ecolabel for this Product Group?

We agree with the proposed set of mandatory criteria as a structure for the envisage EU Ecolabel for financial products. However, we believe that setting too strict criteria would have the effect of making it unworkable to create a sufficiently broad range of products that could meet investors demand - the objective should be to allow retail investors to easily identify which are the best products on the market on terms of environmental performance and this would be best achieved by setting standard that would allow a sufficient share of the available products to qualify.

While we understand that the Ecolabel could initially set higher standards than those currently in place and be viewed as a stimulus to the creation of greener products, we caution against too strict criteria that might end up narrowing the number of eligible products so much as to make them irrelevant in terms of market appeal. From a practical point of view, we appreciate the flexibility of a point-based system that allows for a richer palette of products to be developed and different strategies to be put in place to the benefit of competition and consumer choice.

With regards to the inclusion of social and ethical aspects amongst the criteria, we would recommend a focus on the environmental aspects also in view of the tradition that the label carries with itself and the criteria adopted in other industries where the



ecolabel is adopted. Notwithstanding the above, the inclusion of some minimum requirement in terms of labour and human rights consideration might be appropriate.

Proposal for the Retail Financial Products scope

Q 2.1 Do you agree with initial proposed scope for the EU Ecolabel?

We are supportive that the retail funds, including UCITS and AIFs, are proposed to be in the scope of the EU Ecolabel. However, we would recommend using legal terms established under the relevant EU frameworks to define the scope of application - the definitions adopted by the Ecolabel should be borrowed from the existing sector legislation such as UCITS, PRIIPs and AIFMD

We would suggest the following wording to the box on page 17 of the Technical Report to reflect this:

*"This product group shall comprise the following **retail** financial products that are provided as a service by a **UCITS management company, an AIFM or an insurance undertaking** and have been packaged for retail investors in accordance with [...]:*

- ***UCITS and, where applicable, AIFs offered to retail investors***
- ***Insurance-based investment products***

*The retail financial product shall be **notified** or authorised for marketing or distribution in a member state of the European Union."*

Q 2.2 Do you think other financial products/services should be included that are not covered in the initial proposed scope?

While at this stage the suggested scope seems sufficiently broad, ELTIF could be considered in the scope.

Q 2.3 To what extent could savings and deposits be included within the scope in the future given the need to be able to identify specific uses of the money held in them as being 'green'?

n/a

Q 2.4 While bonds are included as underlying to investment funds, to what extent could retailed bond products themselves be included within the scope in the future, with verification of their greenness based on the Green Bond Standard?

n/a

Q 2.5 Are there any other financial products or retail investment opportunities that could be considered for a future scope?

PEPP could be regarded as products that could become eligible for Ecolabeling.

Proposal for Criterion 1: thresholds on green investment portfolio and economic activities



Relating to green economic activities

Q 3.1 Is there a way to address economic activities not yet featured in the current version of the EU Taxonomy and its technical criteria?

We believe the taxonomy should be the centerpiece on which to base the Ecolabel system and we would recommend waiting for the completion of the definition of such taxonomy before the Ecolabel becomes applicable: this would avoid ambiguity that could stem for a change of perimeter and definitions while the ecolabel is in its infancy.

In addition to those already being considered, we regard 'environmental services such as consulting and technical advice' as a sector that may be worth including to the taxonomy as they do play an important role.

Relating to green investment portfolio value

Q 3.2 How could the revenue for a parent group with number of daughter companies and their share be handled?

n/a

Q 3.3 How should assets held in other investment funds be treated within this criterion? Do they require any special form of verification?

In terms of the general approach for determining the greenness of an investment portfolio, and as already mentioned above, while we regard threshold necessary to make the label meaningful, we warn against setting too ambitious level, especially at this initial stage. In order to minimize the risk of the EU Ecolabel becoming a niche product - which runs against the objective of stimulating the financing of the environmentally sustainable projects - a gradual approach could be adopted to allow for the market to develop: every 3 years or longer the situation could be assessed and, as the number of products that qualify for ecolabel increases, thresholds could be revised and set to higher standards (broadly speaking, similar to euro 1,2,3 for vehicle emissions).

In addition, we would like to make the following comments on the first proposal for specific criteria:

- For equities, it would be very challenging to establish which percentage of turnover is attributable to the green economic activities. In practice, such assessment would be dependent on non-financial disclosures by issuers and more feasible for small, potentially non-listed companies than for large caps with complex corporate structures and a variety of business lines. However, investment funds aiming at a wider retail market do not tend to invest on a large scale in private equity or small caps since such investments are not aligned with the typical risk profiles of retail investors.
- For bonds, it seems too early to require that all bonds contributing to the greenness threshold must be fully compliant with the EU Green Bond Standard (GBS). The market of green bond in general is still developing and the EU GBS is still being discussed as a voluntary standard and it is not possible to assess at this stage how popular and successful it will be. In case the EU GBS turns out to be only serve a niche market, the bond investment opportunities of funds wishing to



qualify for the EU Ecolabel would be severely constrained. Moreover, investments in bonds complying with the EU GBS should not be a compulsory element of qualification for the EU Ecolabel. Acceptance of EU GBS certificates as a proof of compliance with the greenness requirements should already create some incentives for such investments as compared to investments in other green bonds.

- For assets held in other investment funds (target funds), it would be very difficult to apply a look-through approach to determine the degree of greenness at the fund-of-fund level. If at all, such look-through should be limited to specific points of time, e.g. linked to the end of the fiscal year of the target fund and publication of its financial statement. Under such approach, it would be sufficient to look into target fund holdings in equities and bonds once a year in order to calculate their contribution to the greenness of the overall portfolio. A simplified treatment should be envisaged for target funds certified under the EU Ecolabel or any national label.

With this in mind, we would regard a 50% threshold (or lower) to be more reasonable at portfolio level and a 20% at company level - at least in the initial phase. The above also in consideration of the fact that most public companies have a very diversified portfolio of activities in which green activities would hardly make up 50% of the portfolio. In the same way, companies that are developing new, greener technologies would not be able to generate a large proportion of their revenues from them, at least initially.

As for bonds, in the same way as for equities, an initial lower threshold for the weight of green bonds should be established to be possibly revised over time.

Q 3.4 To what extent should real estate also be considered as a specific asset within the portfolio verification? If so, how could its performance be verified?

It seems appropriate to include investments in real estate in the range of assets potentially eligible for the assessment of greenness. Such assessment should also be based on the EU Taxonomy. In its call for feedback from December 2018, the TEG has already proposed technical criteria for construction of new buildings and renovation of existing buildings to be considered as environmentally sustainable (cf. section 13 of the Taxonomy pack for feedback and workshops invitations). These criteria, once finalized, should serve to assess the greenness of real estate investments.

Q 3.5 Should assets for which verification of greenness is not required be included within the total portfolio asset value?

In our view it would be more meaningful to measure the greenness of a subset of assets only by considering the asset for which greenness can be assessed as the relevant total for the calculation of the threshold - as a consequence we would recommend calculating the threshold only as a percentage of the total of assets held in bond and equity. In addition, cash should be excluded from the total also in view of the fact that market and liquidity conditions affect the share of cash held by asset managers and could unduly affect the compliance of the investment threshold.

Q 3.6 Should any type of criteria on trading practices and/or use of funds be applied to derivatives and cash?



n/a

Q 3.7 Does the assessment and verification require any specific parts to be tailored to individual products within the scope?

n/a

Proposal for Criterion 3: Excluded activities – Environmental aspects

Q 3.8 Do you think the proposed environmental exclusions should be expanded to include more economic activities?

In principle, we agree with the list suggested in the consultation with the exception of illegal deforestation – all illegal activities should be excluded – while non sustainable/certified deforestation could be added to the exclusion list. We recommend, however, to check such list against the outcome of the taxonomy classification in order to ensure consistency and not excluding those economic activities that support transition towards a more sustainable use of the fossil fuel in the transition phase.

Q 3.9 Do you think the partial exclusions threshold should apply to each company's activities or to the portfolio as a whole? If it should apply at portfolio level, should it be set differently for specific sectors?

They should be applied at company level for all companies within the portfolio.

Proposal for Criterion 3: Social and Ethical related exclusions

Q 3.10 Do you think the proposed exclusions list on the basis of social & ethical aspects should be enriched with more activities?

While we believe that the focus of ecolabel should remain on environmental aspect, some level of consideration for labour and human rights should be given. A norm based approach would be advisable i.e the compliance with the OECD Multinational Enterprises Guidelines or the ILO labour conventions or the UN principled on Human Rights and labour. In the same way, we would consider the exclusion of weapons banned by international conventions, while we would be cautious towards the exclusion of sectors based on social criteria in order to qualify for the ecolabel – and in particular, we would regards as eligible both tobacco and weapon productions – as we would regards as not consistent with the environmental focus of the Ecolabel.

Q 3.11 Do you think it may be appropriate to also exclude poor corporate management practices and/or poor human capital development? If yes, how it will be possible to verify such exclusions?

As explained above, we believe the EU Ecolabel should focus on the environmental aspects as the name suggest. The definition of sustainable investments in Article 2(o) of the Disclosure Regulation already requires that “the investee companies follow good governance practices, in particular with respect to sound management structures,



employee relations, remuneration of relevant staff and tax compliance”. These criteria of good governance could be included in the framework for the EU Ecolabel but we would warn against adding others.

Proposal for Criterion 4: Consumer information

Q 3.12 What will be a reasonable interval for monitoring and reporting information to the consumers?

Many of the information covered in item I for Criterion 4 are already covered by existing regulation – UCITs, PRIIPs and the forthcoming Disclosure Regulation. In order to avoid the proliferation of information documents, consumer information requirement for the Ecolabel should be viewed in the framework of existing consumer information regulation and be granted the same periodicity. As regards the verification of portfolio composition, annual verification appears to be reasonable.

As for item 2, we do not consider relevant for the granting of the Ecolabel to a specific products information of the activities and governance structure of the asset management company, beyond what is already required by existing and forthcoming regulation. The Ecolabel should be granted to a specific product in view of how the asset specific to that product are managed and not to the overall company activity. Company information could be possibly considered relevant only in the case of specific engagement action on environmental issues.

Milan, May 6th, 2019